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# **Business Ethics and Corporate Responsibility – A New Perspective**

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## **Abstract**

Starting from the famous but controversial statement of Peter Drucker (1981) -

“There is neither a separate ethics of business nor is one needed”, this paper goes on to argue that business ethics and social responsibility are not unrelated. It shows how it is necessary to distinguish between business philosophy and philosophy of business. Through this distinction it develops a framework that relates the two – business ethics and CSR. It goes on to argue that there is a paradigm shift in the philosophy of business. This shift leads to a framework wherein a new perspective on business ethics and social responsibility emerges. It is coined as Corporate Responsibility. It consists of (a) good governance (b) corporate social responsibility (“CSR”) (c) environmental accountability. It discusses the role of top managers in achieving Corporate Responsibility through Organizational Transformation. This is the integrated approach to Corporate Responsibility that needs to be incorporated into International Standards of Social Responsibility. However, the major challenge is of evolving a strategy for laying down standards that take care of major issues and provide standards that are measurable, objective and universal. The three central issues of International Social Responsibility Standards are:

1. Acceptance of the tri-focal approach – Governance, Responsibility and Accountability.
2. Approach to methods of measurement is resolved.
3. The mandatory versus voluntary issue can be resolved only if issues of measurement and their universal applicability is resolved.

## **Business Ethics and Corporate Responsibility – A New Perspective**

### **1.0 Introduction**

Certain misnomers that have crept into the domain of the study of Social Responsibility need to be examined before proceeding any further. The first relates to the fundamental basis of social responsibility and the second is about the relationship between business ethics and CSR or simply social responsibility.

It has become almost passé to highlight a case for CSR by eulogizing the benefits of Social Responsibility programs for the bottom-line, that is, for profit. The justification for such an approach arises out of business strategy. In turn, Business Strategy relates to Business Philosophy. While having stated the premise of Business Philosophy it is important to distinguish between Business Philosophy and Philosophy of Business.

Business Philosophy is a driving force of a particular business. For instance, the “Business Philosophy” of Tata’s might be to develop a business that is quality conscious and produces products that are within the reach of the common man. On the other hand, Philosophy of Business explains the moral principles that underlie business as a domain. It goes into the purpose of business and the ethical basis and consequences of business. Therefore, “Business Philosophy” relates to the vision of a company whereas “philosophy of business” is an area of study. It is a sub-discipline of philosophy. The “Business Philosophy” may or may not include the ethical dimensions. Peter Drucker and some leading management thinkers believe that it need not<sup>1</sup>. But the “philosophy of

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<sup>1</sup> “There is neither a separate ethics of business nor is one needed” - Peter Drucker (1981)

business” necessarily and clearly is concerned with the ethical foundations of business as a discipline<sup>2</sup>. It is in a similar vein to Hoffman and Moore (1982) that this paper seeks to “clarify the nature, scope and purpose of business ethics.” Although it must be stated that there are some subsequent writings<sup>3</sup> in favour of Drucker which portray him as ‘Business Moralist’<sup>4</sup>.

Philosophy of Business refers to an understanding of the moral and ethical basis of business as an area of knowledge. Just as medicine is an area of knowledge business is an area of knowledge. Philosophy deals with knowledge. It answers the question of what the role of a business is and as to what is the ethical basis of judgment of whether it is fulfilling its role or not. To draw an analogy if the role of medicine is to cure the question is as to whether it is right for medicine to produce artificial genetic material (genomic varieties of new forms of life, new species)? Therefore, while Business Philosophy is a part of Business Policy or Strategy the Philosophy of Business is a part of Applied Philosophy. To answer Drucker, since applied philosophy is different for each applied discipline business ethics is a “separate” study and needs to be so. Business Philosophy is a way of conducting business so as to achieve the goals of a particular business. We have just said that Philosophy of Business is a distinct area of study. What is the study about? To emphasize that this issue is very much current and live we quote a recent study.

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<sup>2</sup> See Hoffman and Moore (1982) “What is Business Ethics? A reply to Peter Drucker”. *Journal of Business Ethics*. Vol. 1, No. 4, November. Abstract:

“In his ‘What is “Business Ethics”?’ Peter Drucker accuses business ethics of singling out business unfairly for special ethical treatment, of subordinating ethical to political concerns, and of being, not ‘ethics’ at all, but ‘ethical chic’. We contend that Drucker’s denunciation of business ethics rests upon a fundamental misunderstanding of the field. This article is a response to his charges and an effort to clarify the nature, scope and purpose of business ethics.”

<sup>3</sup> Schwartz (1998)

<sup>4</sup> Klien (2000)

“Understanding the rules and conventions of business is one of the main tasks for the philosophy of business. In one of its forms, this is known as 'business ethics'. The other main task understands how business is possible...”

Geoffery Klempner<sup>5</sup> (2006)

To which we need to add, “What is the purpose of business?” Philosophy of Business examines the purpose of business. A more complete definition of Philosophy of Business is:

“The philosophy of business considers the fundamental principles that underlie the formation and operation of a business enterprise; the nature and purpose of a business, for example, is it primarily property or a social institution; its role in society; and the moral obligations that pertain to it.”

It is in this context that this paper is set. After this introductory setting we now look at the main argument that we pursue in this paper.

## **2.0 Business and Society**

It is the perception about the nature of business and its relationship with society that defines the ‘Social Responsibility of Business’. It determines what the responsibility of business towards society is and hence, the setting up standards of such responsibility is based on philosophy of business since it is concerned with ‘the fundamental principles that underlie the formation and operation of a business enterprise’. The three inter-related aspects of the philosophy of business are:

1. nature of business;
2. its role in society; and
3. its moral obligations towards society.

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<sup>5</sup> Klempner (2006) “On being a Business Philosopher”, Philosophies for Business. E-journal. Issue 26, 5 February.

We first discuss the tradition notion of these aspects of business and then shall examine the shift in the paradigm. In the process we shall take up the second misnomer by which it is believed that business ethics and social responsibility are unrelated things.

### *Nature of business*

Traditionally, business has been seen as a property institution rather than a social institution. In its conventional form, the primary motive of business was to earn profits. It was believed that business should earn profits at any cost. This implies that the domain of business as an entity was distinct and independent from that of the rest of society.

### *Role of business in relation to other entities*

Society expected business to produce goods and services as per the need of its members. Business as well as society expected the State or Government to take care of other social and environmental concerns. Further, it was assumed that the managers would automatically meet the interest of shareholders.

### *Moral obligation of business*

The conventional understanding is that a business is obliged to recompense factors of production which it does through the market mechanism. The factor incomes are commensurate to their contribution to social product. The price paid for other resources, including natural resources, is equal to the cost of those to in real terms. Hence, it is purported that a business automatically discharges its moral obligation towards society and does so in full measure.

The above argument leads to a position that business ethics is distinct and unrelated to social responsibility. The argument is that if business has effectively discharged its obligation towards society through the market mechanism then it has done so by quid pro quo. There is nothing wrong with such conduct. Its activities are in the interest of society and are demanded by society on the one hand, and it has adequately compensated society, on the other hand. Therefore, no ethical question remains if business pursues its activities in the ordinary course. Hence, there is no such omnibus notion of business ethics that applies in general. It then reduces to how individual managers or entrepreneurs behave and this is governed by general ethics or individual ethics. It has nothing to do with business as a class. Thus, there is no scope for business ethics, as such. Any social activity or program carried out by a business is hence, only voluntary, sans any moral obligation or ethical consideration. Therefore, business ethics is disparate from corporate social responsibility, as per the extant notion quoted above.

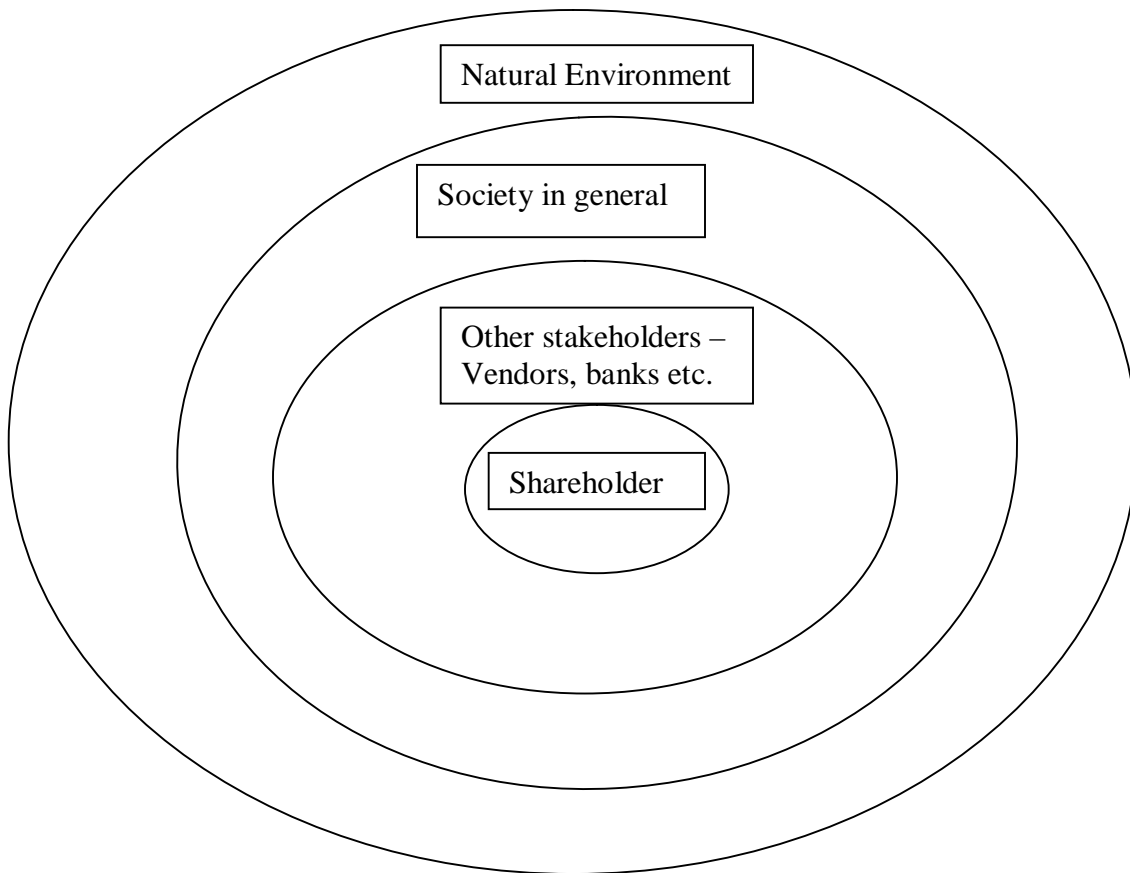
### **3.0 Paradigm Shift**

Over a period of the two decades since Drucker made his remarks about business ethics, there has been tremendous change in the paradigm, which is the result of two shifts. The first shift relates to the philosophy of business. The new perspective has broken down this compartmentalization of business and society and by now it has been realized that social and environmental issues can no longer be addressed entirely through a unilateral imposition by the State through a legal framework. In the light of this new development, the business had to gear itself to rethink to develop new theories and practices of management to align itself with this breakdown. Besides this, the phenomena of a rapid decline in the role of the State and withdrawal of the State from the social space have



created a vacuum. As the needs of the society and the imbalances in the society have not changed, and therefore business has to emerge as the filler. The roles, relationships and realms of the three entities – the government, the business and the society have changed. The first implication is that this imposes a corporate responsibility of businesses towards society. This is indicative of a paradigm shift in the philosophy of business.

### **Corporate Responsibility of Businesses towards Society**



By the existing philosophy of business a business only had a responsibility towards its shareholder by earning profit for them. This was the understood as the role of business. Business was ‘possible’ because society desired this role of it.

Here, we wish to make a strong axiomatic enunciation, namely, if the philosophy of business is about ‘how business is possible?’ and about ‘formation and operation of a business enterprise’, then it automatically includes the premise of ‘how business may not be possible’ and how instead of ‘formation and operation of a business enterprise’ how a business may cease ‘to operate’. The basis of the philosophy of business should naturally include its obverse. Hence, the philosophic basis of business does not arise out of ‘business strategy’ and is not buttressed by how CSR enhances profits. It lies in not only explaining ‘how business is possible?’ but in explaining “How businesses cease to operate?” or “How businesses fail?” And, how this is not merely a question of finance or profit, for some of the most profitable concerns and giants at that have failed<sup>6</sup>.

Hence, earlier businesses could be formed and could operate successfully without including in their conduct anything that is a concern of society, beyond what is valued, created and delivered through the market. It was assumed that any responsibility that business had towards society is duly discharged through the market mechanism. Services, goods, raw materials and other resources that are drawn by business from society are adequately recompensed by the price established by the price mechanism. The prevailing philosophy was content with such a notion.

Now, the second implication of the paradigm shift is that businesses can no longer afford to do so. A business has to be responsible towards society. It has to be accountable to the environment. And, it has to be good to its shareholders. Without having such ethical

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<sup>6</sup> Ronald R. Sims, “Ethics and corporate social responsibility: Why giants fall”, Pragear, West port, CT ,2003

conduct in business it may cease to exist. The entire three dimensions arise out of business ethics. Particularly, out of the newfound role of business and directly relate to Business Ethics. Thus, there is a need to incorporate in their 'Business Philosophy' all the three dimensions. There is a need to treat corporate responsibility as a package of three dimensions (a) good governance (b) corporate social responsibility ("CSR") (c) accountability. This implies that all three of them co-exist and can no longer be put in three water tight compartments. Business has been forced to accept corporate responsibility in its entirety, which means amalgamation of all the three dimensions taken together.

#### *Implications of Shifts in paradigm:*

The abovementioned shifts have resulted into, on one hand, a merging of business philosophy with business ethics which were earlier distinct from each other and on other hand corporate responsibility is understood in its true sense i.e. as a complete package. We now reconsider the renewed perception about the basis of business due to the shift in paradigm. The three inter-related aspects of the philosophy of business are:

1. nature of business;
2. its role in society; and
3. its moral obligations towards society.

#### *Nature of business*

There is a transformation in the nature of business. It cannot be continued to be viewed merely as a property. Internally there are many dimensions of society that reside in the

business, for instance, diversity across cultures and communities prevail amongst the employees. Secondly, there is scope for discrimination at the work place as there could be in the society, in general. This way business becomes more and more a microcosm of society. Externally, it has been pointed out that the decline of the State has lead to a vacuum in the social space. Therefore, the social responsibility of business has grown.

#### *Role of business*

This is no longer restricted to carrying out ordinary economic activity in pursuit of profit but to fulfill the gap uncovered by the State. Hence, the role is, at least, in part, that of a social institution.

#### *Moral obligation of business*

Most importantly, this social obligation is not an undischarged or unfulfilled responsibility of business. It is apart from the obligation meted out to contracting parties like vendors, employees or the government.

### **4.0 Corporate Responsibility**

Corporate Responsibility, it has been seen arises from Business Ethics and has three dimensions, that is:

- (a) Good Governance
- (b) Corporate Social Responsibility
- (c) Environmental Accountability

This is how business ethics becomes an all pervading influence in the governance of business. The top management is not only responsible to envision such a change but to

translate this vision into practices and also to make sure that they adopt a balanced approach towards three dimensions. It should be evidenced from the conduct of business as it is not easy for them to get away from this by indulging into only in lip service.

(a) **Good Governance:** The corporations are formed on the basis of division of ownership and control, in which the investor or owner relies on the manager i.e. CEO to manage the business on his behalf which implies that principal agent relationship exists between investor and manager, which causes the room for asymmetric information i.e. there is always a gap between the information possessed by the manager vis-à-vis the investors. This situation calls for a good governance, corporate governance means transparency. The shareholders must have full and true information. There should be transparency in processes, so that the agent (manager) cannot mismanage or take the advantage of the asymmetric information. The objective of good governance is to have such system of controlling and managing so that the interest of owner may be protected. For this to be successful, whatever hurdles are there in the processes are to be removed. The processes are necessary to prohibit the manager to push their own agenda or self interest, i.e. the manager as working in the capacity of agent, might have their own individual goals to pursue which are not in line with organizational goals. Such processes are to be institutionalized which protect the interest of the owner i.e. profit maximization and wealth maximization. Therefore, ethical structure has the implication for good governance, which means better profits. It is important to make profits within ethical framework. There is a shift in the psychology of investors they are not only curious to know how much profit the Company has booked but also how this profit has been earned, i.e. ethically or unethically. Therefore, business has to be done ethically, the profits are

to be taken seriously, if not, it would be interpreted as if the business is not indulging into good governance.

(b) **Corporate Social Responsibility (“CSR”):** Second ethical dimension of CSR includes the social practices where the company is discharging its responsibility towards community at large i.e. stakeholders. Stakeholders are the ones who can influence or can be influenced by the actions, decisions, policies, practices and goals of the company. Apart from shareholder, it includes employees’ consumers, supplies, government competitors, and community at large. Traditionally, so far business was treated purely from the point of view of private personal pecuniary motive. Now, a company has acknowledged its responsibilities to society that goes beyond the production of goods and services at a profit. It involves the idea that the corporate has a broader constituency to serve than that of shareholder alone, in more recent years, the term stakeholder has been widely used to express this broader set of responsibilities. By now, it is accepted that corporations are more than economic institutions and they have a responsibility to help society to solve pressing social problems. CSR is about how companies manage the business processes to produce an overall positive impact on society. According to Richard Walls, “Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local communities and society at large”. CSR is about business giving back to society. The concept of social responsibility is fundamentally an ethical concept as it involves changing notions of human welfare, and emphasizes a concern with the social dimension of business activity that have to do with improving quality of life. The concept provided a way for

business to concern itself with these social dimensions and pay some attention to its social impacts. As a result, many of them put a step forward for discharging their responsibility by indulging into philanthropy or by bringing CSR into business strategy.

(c) **Environmental Accountability**<sup>7</sup>: Corporate Responsibility has third dimension in form of accountability of business towards environment. As business interacts with its natural environment, it draws its resources from the environment. It also influences the environment by its actions. Therefore, it is also accountable to it for any impact, which it makes. Earlier corporates dumped their wastes with impunity in the environment. With the growing awareness and concern about environmental degradation, depletion of natural resources like water and fossil fuels and the phenomenon of global warming, there is moral and legal pressure on corporates to realize that the earth needs to be preserved, and looked after so that future generation are not adversely affected.

Corporate Responsibility is closely linked with the principles of Sustainable Development, in proposing that the enterprises should be obliged to make decisions based not only on financial or economic factors but also on the social and environmental consequences of their activities. Therefore, corporate responsibility is about how businesses align their values and behaviour with the expectations and needs of different stakeholders. It also describes a company's commitment to be accountable to its environment, i.e. planet, to be responsible to its society at large, i.e. people and to be transparent in his business practices, i.e. good governance which determines the profit for the investors.

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<sup>7</sup> See Murthy and Jha(2000)

## **5.0 Integrated Approach**

In most recent years, many of the corporates have adopted Triple Bottom Line Reporting, which is an integrated approach to public reporting of environmental, social and economic outcomes against benchmarks. This major step is taken by the Companies to integrate all the three dimensions of business ethics with the business strategies. This line of thinking comes from the top management. A series of internal and external pressures influence the corporate leaders to address ethics such as increasing influence of Non-Government Organizations (NGOs)<sup>8</sup>, a pervasive media in search of stories, knock-on effect of corporate accounting scandals such as Enron and WorldCom, increasing legislation, increasing growth of socially responsible investments (SRI), changing consumers and employees' expectation and never ending social activists' campaigns. Top management is responsible to integrate ethical consideration with company's decision making and manage on the basis of personal integrity and widely held organizational value. It is their prerogative to translate their vision, mission statements and ideas into practices.

## **6.0 Organizational Transformation**

Organizational transformation can be defined as a change, which is fundamental, complex and radical. These changes go far beyond making the organization better or improving the status quo. Transformational change entails the significant shifts in corporate philosophy, values and in the numerous structures and organizational arrangements that shape the members' behavior. It also involves reshaping the organization's culture and design elements.

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<sup>8</sup> See Murthy and Jha (2003) b.



Organizational transformation is particularly pertinent to changing the different features of the organization such as structures, processes, information system, human resource practices and work design. These features need to be changed together and that too in coordinated fashion so that they can mutually support each other and also the new cultural views and assumptions. It is characterized as the transition from a control based to a commitment-based organization. It could easily be distinguished from other types of strategic changes by its attention to the people side of the organization. To label it as transformational, a majority of individuals in an organization must change their behaviors.

From the point of view of traditional perspective, profit making was the whole sole /objective of the organization but in its more progressive form, the organizations have extended from profit making to a much broader platform which could be called as success. Richard Barrot Associates, which is the leader in building value driven organizations, has developed seven levels of consciousness (2006). Accordingly, level 1 is achieved by taking care of financial stability. They master level 2 by focusing on relationships that support the organizations. Level 3 is achieved by emphasizing high performance systems and processes. Level 4 is accomplished by adaptability, continuous renewal and learning. They master level 5 by having shared vision and shared set of values. Level 6 is achieved through strategic alliances and partnerships. The highest level 7 can be realized by serving to humanity and planet. According to them, organizations must learn how to master every level of consciousness to be the most successful organization.

When we examine consciousness from the point of view of corporate responsibility, this framework needs to be modified. Although we are not questioning these seven levels but at the same time we are giving it different reading by interpreting this framework in the sense that success is integrally dependent upon corporate responsibility. Progressive organization should understand that success itself rests upon corporate responsibility. Therefore success itself needs to be reinterpreted and redefined in the true sense. This approach spells out a new paradigm of success.

Business is a social entity and hence its success cannot be separated from successful social management e.g. managing environment in a better way, indulging into activities which help in eradicating social problems like illiteracy, poverty, health etc. we expect

that the businesses should be working towards such success led by the consciousness of its leaders so as to transform the organization with a view to establish the new paradigm of success.

## **7.0 The Role of Top Management**

The leaders of the business must realize the importance of putting people and planet at par with the profit if not before it. As in today's highly competitive economy, the importance of ensuring positive impact on the society can be crucial to both the corporate reputation and business success. For incorporating ethical considerations, that comes no doubt from top leadership who are aware of the fact that three dimensions of ethics percolates all through the organization. But such awareness about CR must be backed by commitment and consciousness to enforce the top management to find out the ways to integrate ethics and values into their day-to-day decision-making. Of course, the role of top management is crucial in the sense that he has the responsibility to translate this vision into business strategy. He has to further harness the CR practices by bringing out the organizational transformation with which this vision would be carried down from top to bottom level in the organization. It is possible by developing systems, processes, policies, plans, practices, having programmes so that it is deeply embedded into the organization. Ultimately, it pervades the whole organization which means not only from top to bottom but also in all functional areas, whether it be HR, marketing, account, finance etc. This whole process is known as institutionalization of CR practices into business system.

If the organization desires to have successful implementation of CR practices, then CR efforts are not only to be institutionalized but also to be perpetuated in organization. Besides this, top management should try its level best to build a system by which CR would become sustainable, only then vision would become reality.

There are several ways in which we may look at the role of top management. In the light of above discussion, we believe the most crucial issue is to know whether she is aware and conscious of CR, how he translates this vision into CR practices, how she contributes to the process of organizational transformation in order to make CR efforts pervade the entire organization. The most important criterion is about what steps have been taken to have the sustainability and the perpetuation of CR efforts within organization.

### **8.0 Seven Levels of Consciousness**

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<sup>9</sup> See Barrette (2006).

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## **9.0 Challenges of setting standards of corporate responsibility**

Coming to the issue of setting international standards the main problem is that the extant approaches are in the form of global principles of CSR. It can be said that they deal with the problem at a very general level. For instance, amongst the most important principles, namely, The Bellagion Principles, Caux Roundtable, Ceres Principles, The Global Sullivan Principles, The Minnesota Principles and The UN Global Compact, The Bellagion Principles alone have a 'Practical Focus'.

However, setting standards implies not just measurability but the amenability of standards to become benchmarks and for them to be objective and universal.

### **9.1 Benchmarking**

If we go by this approach the question is as to how we would have to radically modify the assessment criteria. The major challenge is that for such an approach how can standards be benchmarked?

The first aspect of benchmarking is the problem of measurement<sup>10</sup>. With the new criterion of success how is it possible to measure success? Secondly, the question is as to what is the common yardstick of success in this new paradigm of success?

## **9.2 Merging Standards**

The standards for one aspect like governance may not be malleable so as to be amalgamated with environmental accountability. The codes of each measure must be common for unambiguous interpretation<sup>11</sup>.

Another problem of measurement is that ISO is experienced in laying down standards for physical measures.

## **9.3 Social phenomena**

Physical phenomena can be measured and compared in absolute measures. Social phenomena may often require qualitative measurement. At such times relative comparisons may be more relevant.

## **9.4 Transformation**

As transformation implies radical change in various departments and various ways, ISO standards should also capture this complexity and radical change and not just a tinkering. This further complicates the problems of measurement.

## **9.5 Causal framework**

Another dimension is that there must be a causal framework. Without such a framework policy measures are not conceivable and cannot be made effective<sup>12</sup>.

Finally there is the problem of whether such standards should be mandatory or voluntary.

Obviously, only measurable standards can be mandatory.

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<sup>10</sup> See Murthy and Jha (2003)

<sup>11</sup> See Murthy and Jha (2003) a; Murthy and Jha (2006)a and Murthy and Jha (2006).

<sup>12</sup> See Murthy and Jha (2004).

## **Conclusion**

There has been a controversy over the need for business ethics. The controversy had a misplaced emphasis. Today it is most urgently felt that different dimensions, namely, social responsibility, environmental accountability and governance must be brought under one umbrella of business ethics.

The top management must bring about organizational transformation so as to make such a trifocal approach sustainable.

However, the major challenge is of evolving a strategy for laying down standards that take care of major issues and provide standards that are measurable, objective and universal. The three central issues of International Social Responsibility Standards are:

4. Acceptance of the tri-focal approach – Governance, Responsibility and Accountability.
5. Approach to methods of measurement is resolved.
6. The mandatory versus voluntary issue can be resolved only if issues of measurement and their universal applicability is resolved.

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